

Bid Assessment Framework

November 2020

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1 Overview

This document sets out how Affinity Water Limited will support its Water Resources Management Plan (WRMP) by ensuring the appropriate sourcing of water resources, demand management and leakage services. It gives a framework for potential bidders to understand the context, scope, principles and process to supply Affinity Water with these services and to give confidence that third party bids will be assessed fairly against in-house solutions.

The document explains the best practice principles which are already incorporated into Affinity Water's processes and takes this a stage further by documenting and affirming our commitment to these key principles in a more transparent manner. A key element of this is the establishment of a new "Water Trading Portal" on our website to act as a repository of information, publicise opportunities and serve as a single point of reference for potential bidders. We are also seeking to standardise our procurement processes to allow for greater consistency and encourage interest from potential bidders.

We also explain our ambition to be at the frontier in promoting innovative methods and models to drive efficiency in the provision of these services in the increasingly water scarce south-east. These include proposals around non-household demand reduction through the potential of delivering joint water efficiency communications in an innovative way by combining wholesaler and retailer knowledge, as well as supporting retailers deliver targeted non-household water efficiency checks.

Taken together this Framework should increase the ease of engagement with third parties and encourage a more competitive market for water supply, demand management and leakage services. This should in turn lead to better value for money for customers and increased resilience of supply.

This framework is updated periodically and this version has been updated to include:

- Our current contact details;
- The latest screening criteria as updated for our draft WRMP24 option development process and further information on the best value principles that we are using within WRSE; and
- To provide the latest website links to our engagement HQ hub where we are developing our water trading portal page:

<https://affinitywater.uk.engagementhq.com/>

1.1 Why do we issue a Framework?

Affinity Water is, in principle, willing to trade with any party that either wishes to take from us, or offer to us, a reasonable volume of reliable, sustainable and cost-effective water resources. It is also willing to trade with third party providers of leakage and other demand management services.

In the PR19 methodology, the Water Services Regulation Authority ("Ofwat") wants to encourage greater water trading between appointed water companies, to benefit customers and promote better, more sustainable use of the natural environment. In its decision document in May 2016 https://www.ofwat.gov.uk/wp-content/uploads/2015/12/pap_pos20150520w2020.pdf Ofwat signalled that it would require incumbents to publish a Bid Assessment Framework and this has

been reaffirmed as a requirement in the PR19 methodology <https://www.ofwat.gov.uk/wp-content/uploads/2017/12/Appendix-8-Company-bid-assessment-FM.pdf>. The purpose of the Bid Assessment Framework is to support the bidding market for water resources, demand management and leakage services by ensuring transparency of our process to identify opportunities for trading and establishing a clear framework through which solutions will be procured for such opportunities. The aim is that this greater transparency and clarity will encourage greater interest in bidding for such opportunities and promote innovation in the identification of opportunities and their resolution.

As part of the PR19 process Affinity Water submitted this Framework together with our Business Plan in September 2018. The Framework should be read in conjunction with our final WRMP19 published in April 2020 (<https://www.affinitywater.co.uk/corporate/plans/water-resources-plan>) and our Trading and Procurement Code <https://www.ofwat.gov.uk/wp-content/uploads/2018/08/Affinity-Water-Trading-and-Procurement-Code.pdf>.

We are currently bringing all these documents together in our engagement hq site to improve the engagement process to meet our water trading ambition.

1.2 Using the Framework

This Framework describes the bid assessment process which will be used when Affinity Water identifies requirements for new water resources, leakage or demand management services. Affinity Water will keep its Bid Assessment Framework up to date and publicly available via its website.

After the final determinations and WRMP19 was published we published the Bid Assessment Framework and the Water Resources Market Information <https://www.affinitywater.co.uk/corporate/plans/market-information> on our website. This will also be part of our bespoke Water Trading Portal, described further in Section 2.3

1.3 Assurance

The Bid Assessment Framework forms part of our Business Plan submission and has been reviewed and included within assurance of our Business Plan.

Likewise the assurance processes for the WRMP (and Market Information tables) and Trading and Procurement Code are as set out in those respective documents.

1.4 Contact Details

Any queries in relation to this Bid Assessment Framework can be submitted through our Water Trading Portal or may be submitted directly by post or email using the following contact details:

Steve Hervouet
Director of Regulation and Strategy
Affinity Water Ltd
Tamblin Way
Hatfield
Hertfordshire
AL10 9EZ
Email: steve.hervouet@affinitywater.co.uk

For all email contact please also copy our water resource team in.
wrmcomms@affinitywater.co.uk

2 Context

2.1 Affinity Water

We are the largest water only supply company in the United Kingdom, owning and managing the water assets and network in an area of approximately 4,515km² split over three supply regions in the South East of England. We supply on average 900 million litres of drinking water every day to approximately 3.6 million people (1.4 million properties).

Our supply area is divided into eight different geographical communities, based on our existing water resource zones and each named after a local river. Moving to this community approach has allowed us to tailor our high quality service to customers at a more local level.

2.2 Relationship between WRMP, TPC and BAF

Figure 1 shows our interpretation of the relationship between the WRMP, Trading and Procurement Code (TPC) and Bid Assessment Framework (BAF) and how both the TPC and BAF support the efficient sourcing of resources to meet the supply demand balance detailed in the WRMP.

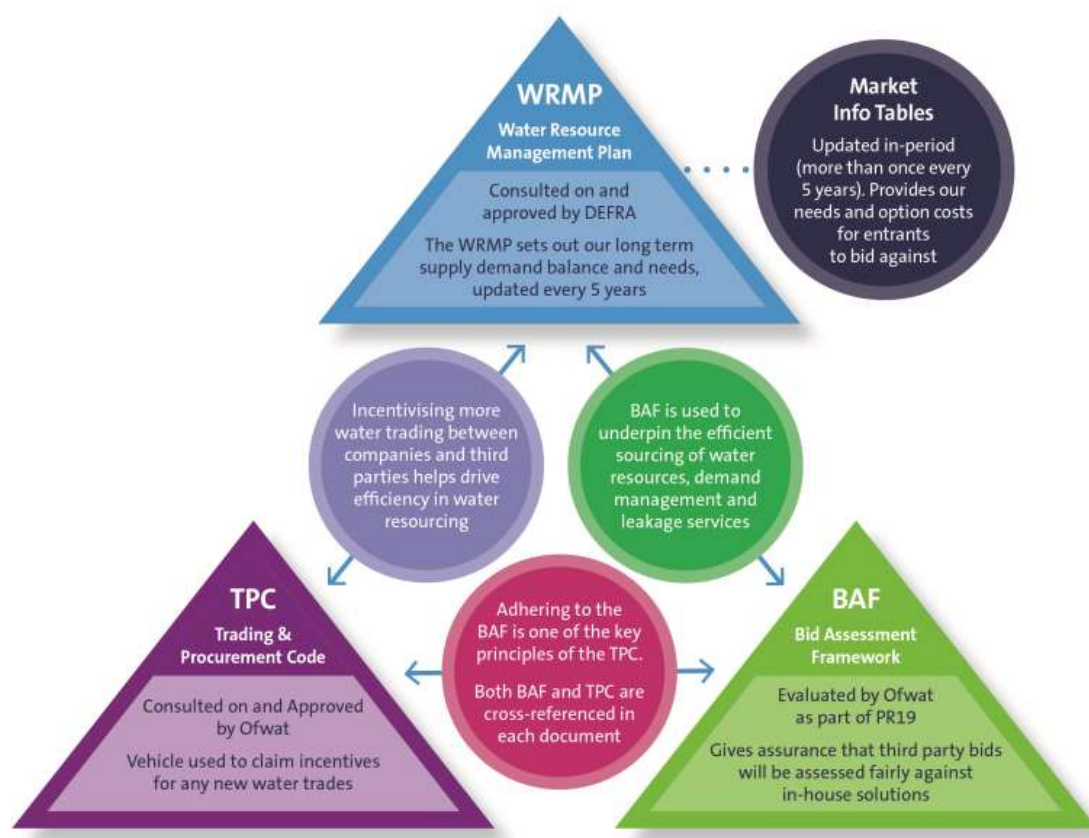


Figure 1 The relationship between the Water Resources Management Plan, Trading & Procurement Code and Bid Assessment Framework

2.3 Affinity Water Trading Portal

To help industry participants understand how the Bid Assessment Framework helps drive lower costs for customers we have developed a schematic flow diagram (Figure 2) to show how the role of our Water Resource Management Plan, Trading and Procurement Code and Bid Assessment Framework link together and interrelate to promote efficiency and drive benefits for customers. This diagram is central to our understanding of the Ofwat methodology to promote water trading through and in-period gateways to WRMP.



Figure 2 Schematic showing how the bidding process drives lower costs for customers

A key perceived barrier to increased water trading and delivery of demand management and leakage services is a lack of information and a lack of transparency around opportunities and requirements. In order to make the Bid Assessment Framework more accessible we will set up an online portal on our website, which we refer to as our 'Water Trading Portal'. The Water Trading

Portal, as shown on the diagram contains information for potential third parties, such as our Trading and Procurement Code, the Bid Assessment Framework, and other information and links (to our Market Information Tables or WRMP Tables). The aim of the Water Trading Portal is to make it easier for third parties to engage and trade with us. The Water Trading Portal will be used as the focal point for all opportunities in relation to water resources and may also be used for opportunities relating to demand management depending on the nature of that opportunity.

Although we encourage potential third parties to approach us with innovative proposals for demand management as part of the BAF, we acknowledge that it may not always be appropriate for such proposals to form a trading type arrangements. Such leakage services and demand management opportunities that we consider are unsuitable for advertisement via the Water Trading Portal because of the nature of those opportunities, will be publicised through Achilles, our procurement platform, which is described in more detail below.

The diagram also shows that the Affinity Water TPC, BAF and Market Information Tables will be published on the Ofwat website. Audit Reports will be produced in respect of each procurement process undertaken by Affinity Water to assess compliance with the principles of this Framework and these will be made available to Ofwat. These Audit Reports will not be published on the Water Trading Portal.

2.4 Driving Efficiency through Market Innovation

Not only is our vision to be the leading community focused water company but we also recognise that our geographical location requires us to be at the forefront of water trading in the South East. We have long understood the water scarcity issues in the South East and have required us to operate at the frontier of best practice and promoting development of innovative business models such as System Operator. These business models build on learning from other industries such as the energy sector and utilise increased regional coordination for mutual benefit <https://stakeholder.affinitywater.co.uk/docs/KPMG%20-Water-sector-business-models.pdf>.

We are committed to promoting regional co-ordination as a vehicle for enhancing water trading opportunities and have been instrumental in shaping Water Resources South East (WRSE) into a regional entity that can deliver a regional plan and with sufficient decision-making authority to help promote regional strategic options and inter company transfers. This will result in increased water availability from both within and outside the South East. Improvements in regional co-ordination will in turn drive efficiencies and lower costs for our own customers as well as customers in the South East more generally.

We see the potential that WRSE offers for water trading as being aligned with the opportunities offered through WRMP. For example the need for pricing transparency for trades is key in both cases. As the WRSE group explores the opportunities that a regional model may offer for enhancing and incentivizing water trading across the region, we will work with the WRSE to help develop methodologies that will promote pricing transparency.

Pricing transparency should be a central principle underpinning the aim of delivering fair pricing for water trading opportunities for all regional participants. We believe that only through a regional approach to pricing transparency can all participants benefit from fair prices, as it is only through regional approaches that the opportunity cost barriers can be removed. Currently this is an issue that is difficult to solve where multiple participants might be involved in a scheme, through each company's WRMP. However, in a regional model the opportunity to expose potential opportunity costs becomes possible, and then a fairer pricing mechanism could be applied to all transfers across the region.

We believe that other innovations could be facilitated through this process. For instance, in the area of demand management we see a potential role for retailers in helping to reduce the demand of its customers, thereby lowering costs for all customers and improving resilience. We envisage this could be achieved by us, as wholesaler, by combining wholesaler and retailer knowledge in innovative way to promote water efficiency communications and support for their non-household customers in reducing demand as well as customer-side leakage.

We are also actively involved in the Retail Wholesale Working Group for water efficiency in shaping the national joint action plan for water efficiency and continue to engage with retailers for potential collaborative opportunities and promotion of water efficiency.

2.5 Impact on WRMP19

We produced our draft final WRMP19 using the principles underpinning the Bid Assessment Framework. A copy of our draft final WRMP19 is available at <https://stakeholder.affinitywater.co.uk/water-resources.aspx>. Our final WRMP19 includes a number of third party options and underlines our commitment to water trading.

3 Current position and future need

3.1 Current water trading arrangements

Affinity Water fully supports water trading between companies where it is environmentally and economically rational to do so. Water trading has the potential for a more environmentally friendly approach to using natural resources from areas of surplus into areas of deficit. Trading also has the potential to protect our customers' water bills where a trade is a less expensive alternative to developing a new source of water. We currently have agreements with neighbouring water companies for transfers of raw and potable water.

3.2 Current leakage and demand management services

Finding of leaks is predominately carried out by in-house direct labour with third party support to help manage the seasonal demand. The repair of leaks through digging, fixing and re-instatement is sub-contracted to third party suppliers. We also have our ongoing water savings programme that is responsible for the installation of water meters, supporting customers in regards to saving water, provision of water saving devices and the promotion of the benefits of having a water meter. The installation of these water meters and supporting customers on their benefits is carried out by a third-party supplier.

For leakage and demand management services, Affinity Water already has agreements in place which were tendered using a pre-qualification system, Achilles Utility Vendor Database, which is open to all suppliers, and advertised bi-annually through OJEU. These contracts will be re-tendered in accordance with obligations under the UCR and under the processes described in this Framework once those contracts expire.

Throughout the term of our current agreements, Affinity Water regularly reviews the market place to investigate options for improving the way its demand management services are delivered.

3.3 Future needs

At the start of the current planning period (2020), we will have a supply deficit in three of our eight water resource zones (WRZs). This rises to deficits in four of our eight WRZs by 2045. Further details can be found in our latest Water Resources Management Plan (WRMP) published in April 2020. Demand management schemes can be found in our WRMP and include leakage management, fitting of smart meters and promotion of reduction in usage.

This anticipated supply deficit emphasises the criticality of developing new methods of maximizing the efficiency of our water supply arrangements. We see water trading and openly competing opportunities for water supply, leakage and demand management services as being key tools to drive value for money and increased resilience for both our water network and the wider region.

The need for this is increased due to the long lead in times for major infrastructure projects meaning that greater efficiencies in water supply and trading will be required to address the deficits that are forecast to occur before these projects can be commissioned.

The Water Resources in the South East (WRSE) group published a regional Statement of Need (SoN) in February 2020. The statement set out the water that we anticipate will be required in the future, and will be updated in 2021. The update will set out the need at Water Resource Zone (WRZ) level, providing potential third parties and new entrants the opportunity to explore the development of new solutions to meet regional and company supply demand deficits. This will not replace the company level Bid Assessment Frameworks, but it will complement them by providing potential new entrants with the regional overview of the company level requirements.

4 Existing Obligations

Affinity Water is already operating on the basis of a number of principles which share the values of this new Framework. This Framework builds on these principles further to enhance the transparency of opportunities for engagement with third parties and providing a clear process for undertaking such engagement.

4.1 The WRMP Process

Affinity Water already follows the WRMP recommended approaches in identifying and appraising third party options in the following ways:

- **OJEU** – We periodically issue a Prior Information Notice to advertise the potential opportunities for third parties to assist us in meeting our supply/demand requirements.
- **Statement of Need** – we publish our supply/demand balance (including any deficit) to advertise the need for new supply/demand services as part of the development of our WRMP (for our draft WRMP24 this is linked to the work in WRSE).
- **Advertising** – We advertise potential opportunities on our website and through relevant journals and magazines.
- **WRMP options appraisal** (including review of water abstraction licences where appropriate)

4.2 Competition Law

We consider our current approach to meeting these requirements and the processes detailed within this Framework to be compliant with requirements under Competition Law. We will continue to review our processes and practices to ensure that they reflect the current requirements under competition law as this may develop over time.

4.3 Procurement Law

As noted in section 5.1 below, we consider the Utilities Contracts Regulations 2016 (“UCR”) to apply to the majority of our current procurement processes. This Framework strengthens our commitment to adherence to the core principles of the UCR and the processes which we intend to follow will be compliant with our obligations under the UCR.

We are also committing to apply these UCR compliant processes to all relevant procurements falling within the scope of this Framework, irrespective of whether they would be regulated by the UCR as a matter of law. This demonstrates our continuing commitment to transparency and equal treatment in addressing opportunities relating to water trading, water supply, demand management and leakage services.

4.4 Current and Future Regulatory Framework

At present, there is no regulatory framework for the direct regulation of water supply agreements made between incumbents and unregulated third parties, although this may change through enactment of section 12 of the Water Act 2014. Any concomitant effects will be incorporated in this Bid Assessment Methodology as appropriate.

4.5 Trading and Procurement Codes

As set out in Section 2 there is an interrelationship between the WRMP, Bid Assessment Framework and Trading and Procurement Code, the latter being a necessary requirement should a water company wish to claim water trading incentives in 2015-2020 or 2020-2025. Our Trading and Procurement Code has been approved by Ofwat and is available on our Water Trading Portal and the Ofwat website.

5 Principles

The following Principles will apply as part of this Bid Assessment Framework:

5.1 Utility Contracts Regulations

Affinity Water is subject to the Utility Contracts Regulations 2016 (the “**UCR**”) and for all procurements that are within the scope of the UCR Affinity Water conducts these procurement in accordance with the relevant requirements set out within the UCR.

Regulation 11 of the UCR makes it clear that the UCR should be applied to procurements relating to:

“(a) the provision or operation of fixed networks intended to provide a service to the public in connection with the production, transport or distribution of drinking water;

“(b) the supply of drinking water to such networks”.

Where the relevant value thresholds are met and no exclusions apply, our view is that water trading, leakage and demand management services are highly likely to fall within this scope.

Affinity Water would therefore already conduct procurements for these services in accordance with the requirements of the UCR which include those of Regulation 36 of the UCR:

“(1) Utilities shall treat economic operators equally and without discrimination and shall act in a transparent and proportionate manner.

“(2) The design of the procurement shall not be made with the intention of excluding it from the scope of these Regulations or of artificially narrowing competition.”

This Framework is therefore an evolution of our existing practices rather than a step change but our intention is to build on the existing requirements of the UCR and provide more greater transparency of how Affinity Water meets these requirements. This wider publication and commitment to consistency of process should make opportunities more visible to potential third party bidders and give greater confidence in the processes.

We will give regular consideration to updating our Bid Assessment Framework in accordance with any update, amendment or replacement to the UCR or otherwise in accordance with best practice.

5.2 Transparency

Affinity Water's current procurement processes already embraces the principle of transparency as is required to follow best practice for procurements regulated by the UCR.

Affinity Water continues to adopt a clear commitment to transparency through this Framework and associated documents. By providing a clear explanation of the procurement processes that will be adopted as well as a high level overview of the evaluation criteria that will be applied, bidders will be encouraged to participate from a more informed starting position. Applying these processes consistently should also save time and cost for bidder participation.

Going beyond this Framework, Affinity Water will ensure that the procurement opportunities are publicised with an appropriate amount of time to allow for third parties to register their interest. When commencing a procurement process, we will ensure that documentation inviting tenders will be clearly drafted and shall set out the details of how the process will operate, what our requirements for that particular opportunity are and the award criteria to be used to determine the most economically advantageous solution to meet the opportunity in question.

5.3 Equal Treatment/Non-discrimination

Affinity Water's current procurement processes already embrace the principles of equal treatment and non-discrimination as is required to follow best practice for procurements regulated by the UCR.

We will ensure that all third party bidders have an equal opportunity to compete for the published service requirement.

Where Affinity Water considers it appropriate to also consider an in-house solution to the relevant opportunity, a distinct in-house bid team will be established within Affinity Water which shall be independent of the team managing and evaluating the procurement process. This in-house bid team will then be required to participate in the procurement process in the same manner as any third party bidder would be expected to participate and will be assessed against the same evaluation criteria.

This will ensure that an objective assessment of all the tenders is adopted and that where an in house solution is to be awarded the opportunity this will have been verified as being the most economically advantageous solution from all those considered.

5.4 Proportionality

Affinity Water's current procurement processes already adopt a proportionate approach when conducting procurements as this is required in order to follow best practice for procurements regulated by the UCR.

For the purposes of our Framework and all procurements that are subject to it, this will manifest itself in the following ways:

- (a) We will adopt a considered and proportionate approach to specifying the requirements that a solution will need to adhere to. This will avoid artificially narrowing the competition for that opportunity and ensure that the solution adopted is appropriate to meet the requirements whilst avoiding unnecessary "gold plating".
- (b) By adopting a consistent approach to these procurement processes we will allow bidders to become familiar with the approach to be adopted and same time and cost by being able to prepare their bids from a common starting point.

Affinity Water will still update the requirements as and when necessary, for instance as part of the annual review of the WRMP or if there is a material change in the supply demand balance or when new opportunities may arise for third parties.

5.5 Conflicts of Interest

Affinity Water's current procurement processes, where regulated under UCR already take account of the need to prevent conflicts of interest through compliance with Regulation 42 of the UCR. This requires utilities to *"take appropriate measures to effectively prevent, identify and remedy conflicts of interest arising in the conduct of procurement procedures so as to avoid any distortion of competition and to ensure equal treatment of all economic operators"*.

Affinity Water shall enhance this commitment by ensuring that, in circumstances falling under the application of this Framework, no associated company of Affinity Water will be able to take part in the bidding process unless this is treated in the same way as an in house bid and subject to requirements of independence and confidentiality. For the purposes of this Framework therefore, an "in house bid" is any service option or solution which is developed by or at the request of Affinity Water or one of its associated companies. Associated companies, such as Affinity Water's retailer, may be willing to provide demand management services or other forms of support which could result in best value for customers. We would ensure that any such "in house bids" would be treated in the same way as any third party bid with no cross-over of staff or information with the procurement team managing the procurement as a whole.

Wherever an in house bid is considered appropriate, this will be prepared by a separate project team working independently from the procurement team managing the procurement as a whole. This in house bid will be subject to the same requirements as all other third party bids and Affinity Water will ensure that there is no cross over of staff between the two.

Appropriate confidentiality barriers will be put in place to ensure that the in house bid team cannot have access to the work of the procurement team or materials provided by third party bidders.

5.6 Non-Applicability of Utility Contracts Regulations 2016

As noted at Section 5.1 above, it is highly likely that all procurements within the scope of this Framework will be regulated by the UCR however there may be some occasions where they are not.

To emphasise our commitment to the principles of transparency, equal treatment, non-discrimination and proportionality we intend to treat all procurements within the scope of this Framework in the same way and apply procurement procedures which are consistent with the requirements of the UCR.

This commitment should provide potential third party bidders with increased confidence in the framework to stimulate the bidding market.

Please note that this is subject to our comments at Section 5.11 around applicable routes to resolve disputes which will differ depending on whether the procurement process is in fact regulated by the UCR. Where the UCR does not apply, Affinity Water will still ensure that there is a robust and transparent process to allow for bidders to challenge the application of our processes where they consider it appropriate to do so and to have this appropriately scrutinised.

5.7 Confidentiality

Affinity Water's current procurement processes already adhere to principles of confidentiality as part of best practice for procurements regulated by the UCR and as required in order to meet Regulation 39 of the UCR. These obligations will be maintained for procurements under this Framework.

To safeguard against any misuse or perception of misuse commercially sensitive information will be subject to appropriate confidentiality barriers to ensure that confidential information provided by third parties is only accessed by the procurement team (and therefore is not accessible by individuals working on in house bids).

5.8 Governance

To avoid any potential internal conflicts of interest the team managing the procurement process (Affinity Water's Procurement Team) will be separate from the team preparing any in house bid (if any).

Affinity Water's Level Playing Field Committee will act as a project board for all procurement processes undertaken. This Committee will oversee the decision-making process and ensure all bids, including in-house bids, are evaluated using the same criteria and in accordance with level playing field principles. The Level Playing Field Committee reports to Affinity Water's Audit

Committee. Our Internal Audit team will undertake audits of compliance from time to time as approved by the Audit Committee.

Affinity Water will also conduct an internal audit of each procurement process including the key decisions made, the conduct of the evaluation process and any decisions to award. A report detailing the findings of this audit process will be made available to Ofwat.

5.9 Dispute Resolution Procedure

Where a procurement process is subject to the UCR, bidders will have remedies available to them pursuant to the terms of the UCR (including potential legal challenge and the remedies which may be determined by a Court, as detailed out in the relevant provisions of the UCR). The use of these remedies will be subject to the time limits and requirements specified under the UCR and generally under applicable law.

Additionally, Affinity Water will have a clear and transparent internal complaints and appeals process. This is set out in Appendix 2.

This will involve in the first instance, contact with the responsible procurement manager leading on the procurement process who will have been identified within the relevant procurement documentation and contact details provided. Where the complaint is unable to be resolved at this level it will be escalated for review and consideration by the Level Playing Field Committee (acting in their role as the project board).

5.10 Periodicity of bids

Where Affinity Water identified a requirement for additional water supply, demand management and/or leakage services it will advertise these opportunities either through the Water Trading Portal (for water supply and applicable demand management services) or via the Achilles procurement platform (for applicable demand management services and leakage services). We anticipate that the majority of water trading opportunities will be identified as part of our WRMP development process which is likely to result in a more intense period of procurement however other opportunities are likely to arise on a more ad hoc basis.

At the point of advertising an opportunity, bidders will be invited to register their interest in submitting a tender for their proposed solution to meet our requirement. Those interested parties that meet our pre-qualification requirements (as detailed in section 6.2.2 below) will be issued with an invitation to tender. This invitation to tender will include details of the precise timings for the procurement, the specific evaluation criteria that will be applied, as well as an anticipated date of for an award decision.

Where no specific requirement has been identified by Affinity Water, bidders may put forward opportunities for assessment by Affinity Water at any time through contacting us through our Trading Portal. These potential opportunities will be assessed to determine whether they present a valid opportunity, using the same methodology as applied by Affinity Water when producing its WRMP.

These third party proposals will not trigger a formal procurement process unless required pursuant to UCR and will instead be dealt with on a bilateral basis. This approach is considered most appropriate to ensure that potential third party providers are encouraged to come forward with opportunities at any time.

5.11 Changes in requirements

Due to the benefits in maintaining consistency of process and approach we will seek to keep any updated or amendments to our processes to a minimum.

We may however make amendments where these are reasonably necessary, for example where these are to reflect part of the annual review of the WRMP, where there is a material change in the supply demand balance or where innovations result in significant new opportunities or require an evolution in approach to follow best practice.

Where changes are made we will update this Framework document and place notices confirming the details of any changes on our Trading Portal.

6 Process

6.1 Market Engagement

Affinity Water is actively engaging with potential third party bidders and seeking to publicise the opportunities that may be available. This allows us to attract new potential third party water resource providers.

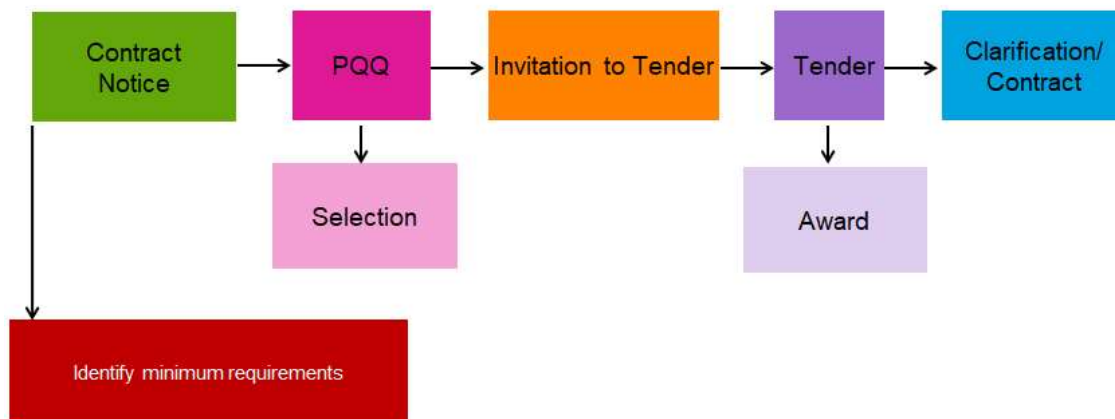
This engagement includes:

- a) publishing market information tables on our web site;
- b) discussing opportunities and best practice with other water companies, local land owners and other relevant third parties; and
- c) issuing notices of any identified opportunities in the Official Journal to the European Union (“OJEU”).

We will increase this activity by making this Framework and information around new opportunities available on the Affinity Water web site (via the Water Trading Portal) to give potential providers confidence around the process for reviewing potential new resources.

6.2 Stages of the procurement

Wherever a requirement has been identified by Affinity Water, a procurement process will be undertaken. This process will follow the process outlined in the figure below. Where an opportunity has been identified independently by a third party and not in response to a requirement of Affinity Water, this will be dealt with in accordance with the process outlined in section 5.10 above.



6.2.1 Expressions of Interest

Where Affinity Water has published a notice (whether through OJEU, Achilles or on the Water Trading Portal) indicating a requirement that third parties may bid to meet, potential bidders should submit expressions of interest via the contact details specified in the relevant notice. For water supply opportunities and certain demand management services this is likely to be via the Water Trading Portal but for other services within the scope of this Framework Achilles will be used to manage this process.

The opportunity to submit an expression of interest is open to all potential suppliers, and pre-qualification documents will be made available to all those expressing an interest. Where appropriate a deadline for submission of expressions of interest will be specified in the relevant notice.

Affinity Water will conduct this initial engagement with potential bidders in accordance with requirements of the UCR.

6.2.2 Pre-qualification

All potential bidders that submit an expression of interest will be provided with a pre-qualification questionnaire which must be completed and submitted within the deadline specified in such pre-qualification questionnaire. This will require provision of information regarding the potential bidder to allow Affinity Water to assess their suitability to progress to the tender stage.

The information required as part of this pre-qualification questionnaire response will continue to evolve over time to ensure it meets best practice for the relevant subject matter but would be expected to include (to a standard proportionate to the subject matter of the procurement in question):

- a) Evidence of compliance with relevant health and safety requirements;
- b) Evidence of compliance with relevant environmental requirements;
- c) Details of quality assurance practices illustrating a best practice approach;

- d) Evidence of technical capability to a standard appropriate to the subject matter of the procurement process in question; and
- e) Financial information (including audited accounts) illustrating the financial viability of the bidder.

Additional criteria, proportionate to the procurement process in question, may be included by Affinity Water where considered appropriate including the objective rules and criteria permitted for exclusion of economic operators pursuant to Regulation 80 of UCR.

Any in-house bid will be assessed against the same criteria. Where a limited number of bidders will be permitted to progress to tender stage, this will be specified in the pre-qualification questionnaire.

For the avoidance of doubt, full details of the minimum requirements for progression to the tender stage of the procurement process will be made clear to all potential bidders in the terms of the pre-qualification questionnaire and a process for clarifying these requirements will be included for use by potential bidders where appropriate.

Pre-qualification questionnaire responses will be evaluated in accordance with the provisions of those documents and in accordance with requirements under the UCR.

6.2.3 Invitation to Tender

Following the pre-qualification stage, all bidders submitting a pre-qualification questionnaire response which meets the relevant requirements (subject to any limit on the number of bidders to progress from that stage in which case the highest ranked bidders up to such limit) will be issued with an invitation to tender by Affinity Water.

This invitation to tender will set out the details of:

- a) Affinity Water's requirements for any solution including the legal terms and conditions that any successful bidder would be required to enter into;
- b) The timescales for submission of a tender;
- c) The approach to clarification which bidders may adopt if appropriate;
- d) Clarity around Affinity Water's liability during the procurement including for provision of any information that may be made available to support production of tenders by bidders;
- e) Details of any opportunities for bidders to attend meetings or receive feedback from Affinity Water (if applicable);
- f) Details of any intention to down-select bidders or operate a phased evaluation process whereby bidders which fail to meet certain criteria will not progress to more detailed/time intensive elements of the evaluation process;
- g) Details of the evaluation criteria which will be used by Affinity Water to determine the most economically advantageous solution; and
- h) The routes available for any challenge to the decision to award or conduct of the procurement process.

Affinity Water will ensure all bids received will be treated equally and in line with the published tender process and evaluation criteria. Throughout this process the Affinity Water will ensure that it maintains the obligations of transparency, equal treatment, non-discrimination, confidentiality and mitigation of conflicts of interests in accordance with its obligations under the UCR.

6.2.4 Evaluation of Tender Submissions

6.2.4.1 Fair and Transparent process

As noted above, all evaluation criteria, including the relative weighting for each of the criteria will be made available to bidders as part of the invitation to tender. This will ensure the process is transparent. Each bid submission will be evaluated in the same way using the published criteria.

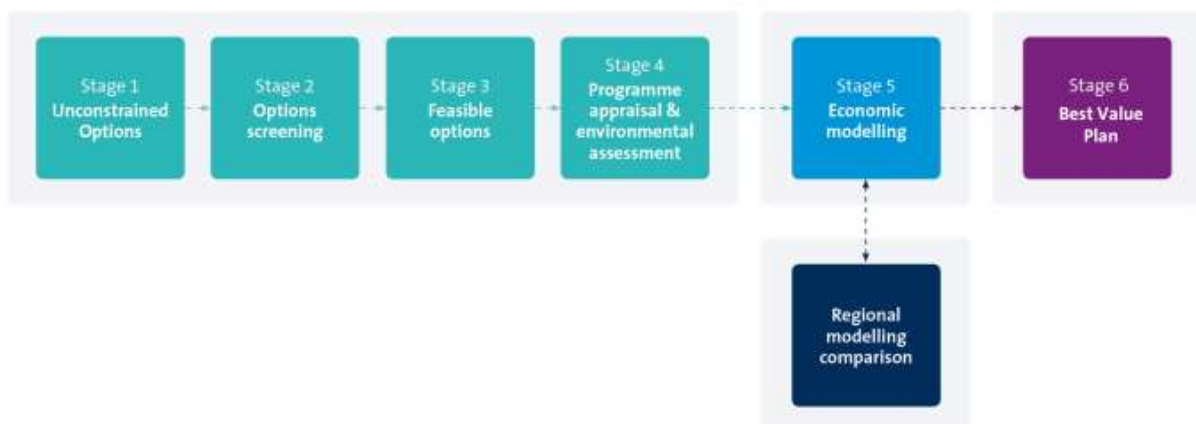
The evaluation criteria will vary depending on the nature of the procurement in question but would be expected to include (as a minimum) an assessment of the cost of the bidder's proposals, the technical feasibility and validity of the bidder's proposed solution and confirmation that the bidder will accept the terms and conditions proposed for any resulting contract to be awarded.

It is our intention to publish standardised evaluation criteria through our Water Trading Portal in due course and this Bid Assessment Framework will be updated accordingly.

6.2.4.2 Water Trading and Demand Management Options

The technical and financial assessment of submissions relating to water trading and demand management options (i.e. where the methodology to be used to achieve the required demand management objectives remains open to bidders to determine) requirements will include a multi-criteria analysis of the bidder's proposals (looking at factors such as environmental, deliverability, risk, resilience and a customer preference comparator)

This assessment will proceed in the manner demonstrated in the figure below which replicates the options assessment and development process which Affinity Water currently undertakes for developing its WRMP and aligns with WRMP guidance.



It is worth noting that Stage 5 is our best value assessment stage. We provide further details of the best value principles in Appendix 1. This reflects our process followed in compiling our final WRMP19. We will update Appendix 1 in advance of commencing preparation of WRMP24 to include a description of all stages of our decision-making process and will invite third parties to submit options to us following the process outlined in our BAF.

6.2.4.3 Leakage Services and Demand Management Services

The technical and financial assessment of submissions relating to leakage services and demand management services (i.e. where the method to be used to achieve the required demand management objectives have been pre-defined by Affinity Water) will include an assessment of the commercial viability and the technical feasibility of the bidder's proposals.

It is our intention to publish standardised evaluation criteria to be used in the procurement of these services on our Water Trading Portal in due course.

6.2.4.4 Treatment of internal bids

Internal proposals to meet Affinity Water's advertised requirements will be evaluated using the same methodology for assessing third party bids.

6.2.5 Contract Award

Following the tender process and evaluation, a full evaluation report will be produced which includes the process to the award decision, demonstrating value under the evaluation criteria. This report will also include the assessment of any internal bid submitted. This report will be made available to Ofwat for audit purposes.

All bidders involved in the tender processes will be informed of the award decision, including reasons for acceptance or rejection including the characteristics and relative advantages of the successful tender. This will be provided in a manner compliant with Affinity Water's obligations under Regulation 101 of the UCR.

6.2.6 Dispute Procedure

Where a procurement process is subject to the UCR, bidders will have remedies available to them pursuant to the terms of the UCR (including potential legal challenge and the remedies which may be determined by a Court, as detailed out in the relevant provisions of the UCR). The use of these remedies will be subject to the time limits and requirements specified under the UCR and generally under applicable law.

Additionally, Affinity Water will have a clear and transparent internal complaints and appeals process. This will be accessible to bidders through our website via the Water Trading Portal.

This will involve in the first instance, contact with the responsible procurement manager leading on the procurement process who will have been identified within the relevant procurement documentation and contact details provided. Where the complaint is unable to be resolved at this level it will be escalated for review and consideration by the Level Playing Field Committee (acting as their role as the project board).

6.2.7 Record Keeping

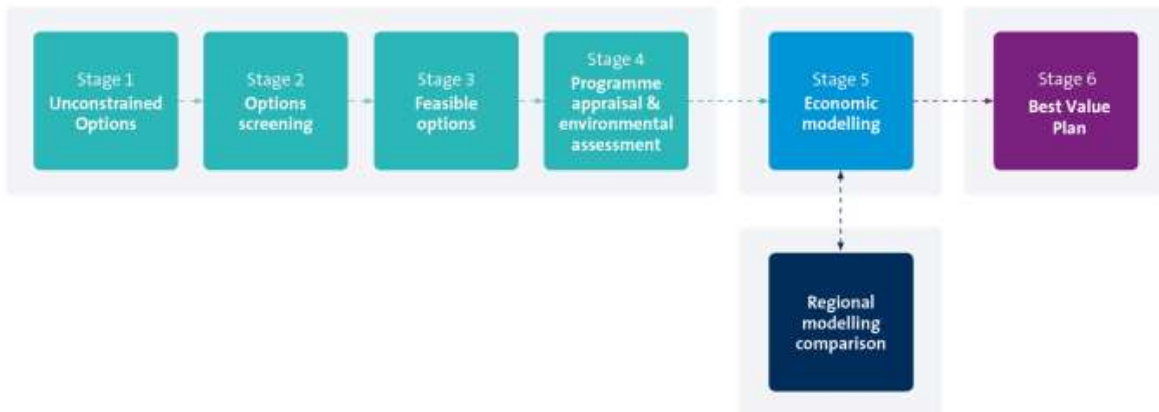
Affinity Water shall ensure that thorough records are maintained to document each stage of the procurement process including any key decisions. This will ensure compliance with our record

keeping obligations under Regulation 99 of the UCR as well as providing a clear audit trail to demonstrate compliance with the principles of this Framework.

Appendix 1

Water Resources and Demand Management Decision Making Process

Water Resources Management Plan Bid Process



Note: Stage 5 is where the best value planning principles will be applied (see Stages 5 & 6)

Stage 1 – Unconstrained Options

1. We compile a list of all possible options for increasing our supply or reducing demand for water. Our list of unconstrained options for increasing our supply include the following option types:
 - **Surface water** – increasing the amount of water we take from surface water sources, including reservoirs and river augmentation schemes, where the flow in a watercourse is supported (for example by a release of water from a reservoir) enabling more water to be abstracted.
 - **Groundwater** - constructing new boreholes, improving the performance of existing boreholes and drought options, temporarily increasing abstraction during times of drought.
 - **Transfers and trading** – transfers within a WRZ, transfers between our WRZs and transfers from our neighbouring water companies, known as bulk supplies.
 - **Treatment** – improving the treatment of water (e.g. new treatment processes or reducing the losses of water during the treatment process) so that more of the water abstracted can be used for public water supply (e.g. new treatment works and process losses).
 - **Effluent reuse and water recycling** – making use of waste water from sewage treatment works and flow recovery.
 - **Third party options** – transfers from third parties or trading of abstraction licences. An abstraction licence is granted by the EA and fixes the amount of water that the

holder may abstract from the environment. The holder of an abstraction licence can choose to transfer all or part of its licence to another person subject to satisfying the EA that this will not adversely affect the environment.

- **Outage** – reducing the amount of time that an existing source is unavailable.
- **Catchment management** – addressing issues with the quality of the raw water we abstract allowing us to use that water.
- **Desalination** – treating seawater to make it suitable for drinking.

2. The demand option types are as follows:

- **Leakage** – reducing the amount of water lost from our network.
- **Metering** – improving our measurement of water used to enable customers to better understand and control their usage and allow us to identify leaks more easily.
- **Reuse** – small scale re-use of grey water, which is water from baths, showers and washing.
- **Water efficiency** – reducing the amount of water that customers use.
- **Tariff** – adjusting the price customers pay for water to provide an incentive to reduce use.

Stage 2 – Options Screening

3. We subject all unconstrained options to a screening process to create a shorter list of “feasible options”.
4. We use a two-stage approach to screen our supply options:
 - An initial primary screening against 8 criteria on a pass/fail basis; and
 - a more detailed secondary screening (for options which pass primary screening).
5. Our primary screening identifies options which fail any one or more of the 8 criteria on the grounds of robust evidence, as described in Table 1 below:

Table 1. Primary Screening Criteria

Ref	Criteria	Description for Fail	Evidence for audit
1	Delivery underway	Option already delivered/delivery is underway, and option under delivery cannot be scaled up in any way	Reference to show delivery underway. (Business plan reference, confirmation by [Name, role, date], etc). Explanation as to why not scalable.
2	Duplication	Option is duplicated with another on the unconstrained list.	Duplicate option reference, name, type and capacity. Reference to which named option is removed/which kept in.
3	Comparative rejection	There are multiple mutually exclusive options and it is clear, even at this early stage, and without any further investigation being needed that a significantly better value option variant is available. Assessment for transfers to include a comparison of length of transfer 'as the crow flies'.	Preferred feasible option reference and clear evidence for why another option is significantly better value in terms of appraisal metrics (cost, yield, resilience, etc)
4	Superseded	Option has been superseded by another to make it no longer relevant.	Superseded feasible option reference and clear evidence for why this option is no longer valid
5	Low flow availability	Option would require abstraction beyond current licensed limits at times of low flow AND relevant CAMS specifies water not available for licensing OR relevant source subject to sustainability reductions which would make any further increase in abstraction unviable	Abstraction licence volume v proposed volume. CAMS document and water body name. WINEP status (for sustainability reductions).
6	CAMS resource reliability	Option would require abstraction beyond current licensed limits when flows are above a certain threshold AND CAMS resource reliability at the required threshold insufficient for the option to be feasible.	Reference to abstraction licence volumes. CAMS document and water body name
7	3rd party water availability	Third party constraints make the option completely unviable AND there is no scope to develop a shared option which would overcome the third-party constraints.	Specify the constraints and why they are insurmountable, e.g. CAMS resource reliability, low flow availability, water required locally, etc. Cost unlikely to be a legitimate reason.
8	SEA Criteria	Option has a direct or likely impact, (Footprint or associated impact are within 100m) on: - Special Area of conservation - Sites of specific scientific Interest - Special protected areas - Ramsar Sites - Scheduled Monuments AND impact(s) cannot be mitigated sufficiently to make the option viable.	ArcGIS ATLAS tool outputs/maps: reference to SEA criteria and why mitigation not possible.

Options which do not fail any of these criteria pass through to secondary screening.

6. Our secondary screening is undertaken on the basis of a traffic light system, which allocated each option to one of three categories:

- **Green** – no major issues or sensitivities identified for this option
- **Amber** – some issues or sensitivities identified, which may not be showstoppers but which could result in risks or complicated design and implementation strategies. For example, this could be an option located with an Area of Outstanding Natural Beauty (AONB)
- **Red** – significant issue or sensitivities that affect the ability to implement this option.

This included options in areas where there is no further water available within the catchment (under the EA Catchment Abstraction Management Strategies or CAMS) or where the option may have a significant detrimental impact on a designated site.

The full list of criteria is provided in **Error! Reference source not found.** below.

Table 2. Secondary screening criteria

Ref	Criteria	Question for screening	Evidence for audit	Pass/ fail or RAG	Green	Amber	Red
A5	A5: Operational complexity	Would the option increase the complexity of operation of the abstraction, treatment or distribution infrastructure?	Explanation for the expected change in complexity	RAG	No increase in complexity	Some increase in complexity	Significant increase in complexity
E1	E1: Modularity and scalability	Can the option be implemented on a modular or scalable basis?	Clear explanation for why/why not scalable	RAG	Option has potential for flexibility in capacity	Option capacity is largely fixed	N/a?
R1	R1: Uncertainty of option's supply/demand benefit	What is the uncertainty in deployable output of the option?	Explanation for cause of the uncertainty and why it cannot be resolved	RAG	<50% uncertainty	50% to 100% uncertainty	>100% uncertainty
R3	R3: Vulnerability of infrastructure to asset failure other hazards	Is the option particularly vulnerable to asset failures during shock events?	Clear explanation for expected impact	RAG	Option no more vulnerable to asset failures than average for the WRZ	Option more vulnerable to asset failures than average for the WRZ	Option highly vulnerable to asset failures
R5	R5: Catchment & raw water quality risks	Would the option be likely to increase WRZ outage associated with transient catchment water quality events?	Clear explanation for expected impact	RAG	Transient catchment water quality risks no higher than average for the WRZ	Option may increase WRZ outage associated with catchment raw water quality risks	Option likely to significantly increase WRZ outage from catchment raw water quality risks
S2	Regulatory approval	Are there significant risks associated with regulatory approval of the option?	Regulatory correspondence or reference to regulatory guidance	RAG	No risks identified	Regulators have suggested licensing or approval may not be possible	Regulators have suggested licensing or approval unlikely to be granted
S3	Customer preference	What is the customer preference for this option type	Reference to customer surveys, specifying survey details (numbers surveyed, dates, results, etc)	RAG	Customers indicated a preference for this option type and will be straightforward to promote	Customers were generally neutral, or perception is uncertain/mixed; some mitigation may be required to improve acceptability of option	Customers indicated other option types were preferred and the option will be difficult to promote.
S4	Stakeholder Promotability	Are there risks associated with non-regulatory stakeholder support for the option?	Evidence to show stakeholders oppose this option type and that it would be difficult to mitigate that opposition	RAG	No reason to expect significant local opposition to this option	Evidence to suggest stakeholders may actively oppose the option	Stakeholders likely to significantly oppose this option
S5	Planning	Is the option at risk of being blocked by unalterable planning constraints?	Reference to planning guidance/law	RAG	No high-profile planning constraints	Planning constraints that can be overcome	Planning constraints that are high profile and unlikely to be overcome.

Ref	Criteria	Question for screening	Evidence for audit	Pass/fail or RAG	Green	Amber	Red
							E.g. Heathrow third runway or HS2
WR MP3	Excessive Cost and carbon	Are the option cost and carbon emissions likely to be excessively high?	Quantitative assessment of option characteristics (e.g. length of route and pumping head)	RAG	Quantitative assessment clearly indicates least cost option for addressing need, or would clearly be part of least cost programme for addressing anticipated needs	Due to estimating uncertainties option has potential to become least cost, or potential to be part of the least cost programme for addressing anticipated needs	Quantitative assessment clearly indicates substantially more costly than other options for addressing need
WR MP5	Option status with respect to environmental designation, including SEA and HRA considerations	Does the option have a direct or likely impact (Footprint or associated impact are within 100m) on: Special Areas of conservation; Sites of Special Scientific Interest; Special Protected Areas; Ramsar Sites; Scheduled Monuments; National Nature Reserve; Registered Parks and gardens; current or historic landfills; Grade 1 Agricultural Land; Flood Zone 3; Ancient Woodland; Marine conservation zones	Route optimiser tool outputs and maps	RAG	No designations within 100m of proposed option footprint	Pipeline/transfer route located within statutory sites; mitigation may be required but option still feasible	Significant overlap with designated site boundaries makes option unlikely to be feasible
WR MP6	Option status with respect to overall SEA screening (sustainability)	Consideration of full SEA screening results and identification of key issues	Route optimiser tool outputs and maps	RAG	No significant risks identified	Some concerns owing to SEA screening	Significant risks identified under the SEA
WR MP7	Natural Capital	Is the proposed scheme likely to impact Natural Capital Stocks	TBC	RAG	The Option is likely to cause an overall gain in Natural Capital Stocks	The Option is likely to cause an overall loss in Natural Capital Stocks	The Option is likely to cause an unacceptable loss of Natural Capital

Ref	Criteria	Question for screening	Evidence for audit	Pass/ fail or RAG	Green	Amber	Red
WR MP8	Water framework directive assessment and/or urban waste water directive	Is the option likely to impact upon WFD no-deterioration objectives?	TBC	RAG	No likely impacts on WFD no-deterioration objectives	Risk of deterioration but mitigation possible or Not enough information available currently	Likely impacts on WFD no-deterioration objectives
WR MP9	HRA	Does the option have an impact or likely impact on European designated sites	Route optimiser tool outputs and maps	RAG	No European designated sites within 500m	One or more European designated sites within 500m or Not enough information available currently	Direct land take or likely impacts on a European designated site

Options are assessed against sufficient criteria in order to reach a screening decision, as per the rationale in Error! Reference source not found.. Options are assessed against all criteria until reaching a Fail outcome, upon which the option is rejected and no further appraisal is carried out against other criteria. If after assessing all criteria, the option has a “critical appraisal” outcome, some initial option development is required in order to resolve the screening decision, because insufficient information exists initially to reach a pass or fail outcome. The critical appraisal is carried out as efficiently as possible, by picking the criteria that can be resolved up or down a RAG rating as efficiently as possible as necessary to specify Pass or Fail.

Table 3. Secondary screening decision matrix

	No red	1 red	2 or more red
No amber	Pass	Critical appraisal	Fail
1 amber	Pass	Critical appraisal	Fail
2 amber	Pass	Critical appraisal	Fail
3 or more amber	Critical appraisal	Fail	Fail

7. Our unconstrained demand management options are screened using a qualitative screening methodology for the following criteria:

- Yield uncertainty – how certain we are that an option will help to reduce demand.
- Lead-in time – how long it will take to deliver an option.
- Flexibility – can the option be enlarged in the future, or combined with other schemes if required.
- Security of supply – how robust the scheme is; the likelihood of savings varying over time e.g. ‘bounce back’ from metering.
- Environmental impact – the extent to which the option impacts on the environment.

- Sustainability and promotability – the scheme’s impact on energy use, carbon footprint. If the scheme is socially acceptable and customers approve.
 - Suitability – will the option provide the right amount of savings at the right time – seasonality impact.
 - Technical difficulty – how difficult an option is to deliver.
8. A score of 1 to 5 is allocated to each of these criteria with 5 being the worst score and 1 being the best. The maximum worst score available was 40. We take forward options that scored 24 or lower.

Stage 3 – Feasible Options and Stage 4 – Programme Appraisal and Environmental Assessment

9. For each of our feasible supply options, including third party options, we develop an “option dossier” containing the following information:
- A description of the option, including expected yield and any links or dependencies to other options
 - An estimate of the time needed to investigate and implement the option, including the earliest start date
 - An assessment of the risks and uncertainty associated with the option yield and deliverability
 - Option costs over 80 years, for the cost of construction (capex) and the cost of operating (opex)
 - Any other factors or constraints specific to the option.
10. We score how well the options perform against the following criteria to provide a “multi-criteria analysis” for each option:
- Option deliverability – this assessed how easy an option is to deliver on a scale of 1-5, considering risk around obtaining planning permission, construction, technology and other implementation risks.
 - Option yield uncertainty / Cost uncertainty – this assessed how much uncertainty there is regarding how much water will be made available and how certain the costs information is on a scale of 1-5.
 - Environmental Impacts – this assessed the environment impact of an option based on a strategic environmental assessment work on a scale of -5 (being negative impact) to +5 (positive impact).
11. We ensure that we had equivalent information available for our demand management options.
12. We will collect customer and stakeholder feedback on all options including third party options.

Stages 5 and 6 – Decision Making and Economic Modelling to create a Best Value Plan

13. For WRMP24 we are applying best value planning principles in accordance with the most recent UKWIR guidance on best value planning. Where options are assessed according to our Stages 1 to 3 they will then be included within Stages 4 and 5 are undertaken within WRSE and are therefore subject to the best value planning approach being used within WRSE. The detailed approach is not set out here, but the approaches being developed in WRSE can be found at:
<https://wrse.uk.engagementhq.com/method-statements>
14. In summary the option will be assessed based on the tradeoff between cost, environment and resilience using the same objectives and constraints as WRSE and the customer, stakeholder and regulator preferences identified by WRSE
15. Our approach involves the following four steps:
 - **Step 0** – we incorporate high level customer and stakeholder feedback to constrain the scope of the modelling carried out in all subsequent steps.
 - **Step 1** – we will run a conventional Economic Balancing Supply and Demand (“EBS”) model to select a mix of options, including third party options, that would balance supply and demand at the least cost, without allowances for non-monetary considerations or management of future uncertainties.
 - **Step 2a and 2b** – we will take account of customer and stakeholder preferences (customer and stakeholder analysis or “CSA”) and of our multi-criteria analysis (“MCA”) of options described above.
 - **Step 3** – if appropriate, we will develop an adaptive plan by developing “futures” informed by our CSA and MCA. We will then re-run our EBS model to identify the least-cost mix of options for each of future, and test these against multi-criteria scoring to check they represent best value. This allowed us to develop adaptive pathways to ensure that the proposed investment is timely and manages future risks through the identification of up front ‘enabling actions’ on the major investment proposals.

Appendix 2

Complaints Process

Complaints Process

This complaints process may be used where a bidder considers that Affinity Water has failed to follow this BAF. A bidder may make a complaint at any time during the process.

It is without prejudice to any course of action that a bidder may have under the UCR.

The steps for resolving a complaint are:

1. The bidder sends an e-mail to the responsible procurement manager leading the procurement process as identified in the relevant procurement documentation setting out:
 - Brief details of the circumstances of the complaint.
 - The section of the BAF, which it believes has not been followed.
 - The way in which it believes its bid has been or may have been disadvantaged as a result of the failure to follow the BAF.
2. The responsible procurement manager will respond to the complaint in writing within ten working days. This response will:
 - Indicate whether or not the procurement manager agrees that Affinity Water has failed to adhere to the BAF.
 - If so what action will be taken to address the complaint and ensure that the bidder is placed in the position that they would have been in had the BAF been followed.
 - Information about how a bidder may escalate their complaint to the Level Playing Field Committee if they are dissatisfied with the response that they received.
3. If a bidder is dissatisfied with the response that they receive at step 2 they may escalate their complaint to the Level Playing Field Committee within five working days of receipt of the response in step 2.

The Level Playing Field Committee oversees compliance with level playing field principles in relation to the markets within which Affinity Water participates. The Committee is made up of the Legal, Finance and Regulation teams.

4. The Level Playing Field Committee will consider the complaint and the response provided at Step 2 and if necessary will request further information from the bidder and the responsible procurement manager. It will provide a response within 10 working days of the receipt of the request for escalation setting out:
 - Whether the Committee considers that Affinity Water has failed to adhere to the BAF.
 - If so what action will be taken to address the complaint and ensure that the bidder is placed in the position that they would have been in had the BAF been followed.
 - An explanation of the reasons for its decisions.

5. If the bidder is dissatisfied with the response received at step 4 then they may request that the audit that is carried out following each procurement process specifically considers the issues raised by their complaint (see sections 2.3 and 5.8) and will be provided with a copy of the audit report.